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UNCLAS SECTION 01 OF 04 THE HAGUE 000565

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SUBJECT: NETHERLANDS: DUTCH POSITIONS IN ADVANCE OF G20 SUMMIT

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11. Summary: At the Pittsburgh G20 summit, the Dutch will:

- highlight their new Banking Code (which includes a cap on bank directors' bonuses of one year's salary) as an example of improved corporate governance and risk management;
- strongly support the German Charter for Sustainable Economic Activity;
- support a plan for international financing to help developing countries meet aggressive climate change targets; and
- encourage G20 leaders in Pittsburgh to draw up a road map to conclude the Doha Round in 2010. End summary.

12. In Pittsburgh, Prime Minister Balkenende and Finance Minister Wouter Bos will represent the Netherlands. The following Dutch officials will accompany the principals to the summit:

- Richard van Zwol, G20 and G8 Sherpa, Office of the Prime Minister
- Marjan Schippers, Senior Policy Advisor to Richard van Zwol, Office of the Prime Minister
- Rene van Hell, Deputy Director, Office of Trade Policy and Globalization, Ministry of Economic Affairs
- Geert Beekhuis, Senior Policy Advisor on the G20, Ministry of Foreign Affairs
- Taco Stoppels, Head of the Financial and Economic Cluster, Department of European Integration, Ministry of Foreign Affairs

13. The Dutch agree with us that Pittsburgh should not be another pledging summit; the Dutch public and parliament have little appetite for additional spending in the wake of the USD 14.07 billion that the Netherlands pledged in London. In recent statements to parliament, however, Finance Minister Bos did not rule out the possibility that future contributions to the work of the G20 and the international financial institutions would be necessary. Bos quipped that the Netherlands' ticket to the Pittsburgh summit had cost them over USD 18.2 billion, including their G20 pledge in London and other financial guarantees provided to the IMF.

FINANCIAL SECTOR

¶4. Having the G20 push for an internationally coordinated effort to improve risk management and corporate governance in the financial sector is one of the Netherlands' key goals for the Pittsburgh summit. At both the EU heads of state meeting on September 17 and the Pittsburgh summit, the Dutch will highlight their new Banking Code (see below) as an example of what G20 members could do. They will encourage other countries to adopt similar measures; if no international consensus can be reached, the Dutch will implement their code unilaterally.

¶5. On September 9, the Netherlands Bankers Association announced a new Banking Code that all Dutch banks headquartered in the Netherlands - regardless of their presence in other countries - will voluntarily adopt by January 1, 2010. Finance Minister Bos is also considering whether to implement the Code as binding legislation. This announcement is the result of months of public pressure on the banks to rein in risky practices and, especially, to limit the hefty bonuses paid to bank executives. The Code sets rules on risk management and remuneration, including:

- "variable remuneration" (i.e., annual bonuses) for executive board members not to exceed one year's salary;
- banks to develop a "meticulous, restrained" remuneration policy for all other bank employees (including traders and investors);
- Qfor all other bank employees (including traders and investors);
- all executive board members to sign a "moral and ethical conduct declaration";
- chairman of the executive board to be responsible for bank's overall risk policy;
- banks to implement a Product Approval Process in which complex new products will be assessed by risk managers before their market

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release; and

- banks that do not implement these standards must explain why they did not do so in their annual report

¶6. The Dutch will also recommend that G20 governments require a capital add-on if a bank's remuneration policy is deemed to promote imprudent behavior. Regarding bank failure, the Dutch believe that financial institutions should be allowed to fail if doing so poses no risk to the stability of the financial system. For institutions too big to fail, the G20 should promote consistent "entry mechanisms" that provide financial authorities with clear guidance on when and how to intervene. The IMF and the Financial Stability Board could develop the principles to define these entry mechanisms.

The Dutch also favor private sector solutions such as attracting new capital, sales of activities, or mergers as important first steps to prevent bank failures, before turning to government bailouts.

MACROECONOMICS

¶7. To help ensure the fragile economic recovery continues, the Dutch believe the G20 should focus in the short term on financial stability and safeguarding the functioning of credit channels, including by ensuring sufficient capitalization of banks and dealing with impaired assets on their balance sheets as necessary. In the medium term, governments should develop plans to return to sustainable debt ratios - something with which the Netherlands is struggling as its deficit climbs to an expected 4.6 percent of GDP this year - including withdrawing financial sector support where appropriate. The Dutch believe coordinated planning by central banks is crucial to the successful drawdown of this support.

¶8. Regarding the process of peer reviews in which countries review each other's economic and financial policies and performance, the Dutch support an expanded role for the IMF's International Monetary

and Financial Committee (IMFC). The IMFC could initiate a broader peer review process for all IMF members.

CHARTER FOR SUSTAINABLE ECONOMIC ACTIVITY

¶9. As they expressed at the London summit, the Dutch strongly support the German charter; they view it as a useful "shell" to help countries develop common principles of economic activity and address shortcomings in the regulation of financial markets. They recognize that it will be difficult to persuade China and India in particular to agree to strong language on labor and environmental standards, and that concerns remain about the charter replicating work already taking place in the OECD.

CLIMATE CHANGE

¶10. The Dutch view progress in the G20 and other international fora on climate financing as a crucial step to success in Copenhagen. They want G20 leaders to endorse a plan for international financing to help developing countries meet aggressive climate change targets.

The Dutch noted that debate continues within the EU about how much it should pledge toward this international fund, with recommendations ranging from 2 billion to 15 billion euro in annual contributions to the fund by 2020. Since this issue will be discussed at the October meeting of the European Council, the Dutch discussed at the October meeting of the European Council, the Dutch said EU members will not discuss a specific pledge amount at the Pittsburgh summit.

¶11. The Dutch emphasize that all countries except the least developed should contribute to the international fund, and that it should be a new instrument so as not to detract from pledges already made to achieve the climate-related Millennium Development Goals. Developing countries should institute low-carbon growth plans that fund members could evaluate when considering how much financing to provide. The Dutch want all countries to move toward a global emissions cap-and-trade system; to that end, they want the G20 to take measures to ensure sufficient demand for international carbon offsets.

INTERNATIONAL FINANCIAL INSTITUTIONS

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¶12. The Dutch believe that the Pittsburgh summit could be instrumental in building consensus on governance reform of the IFIs.

However, they caution that the G20 process must be linked to similar discussions underway at the IMF and World Bank to enable all IFI member countries to participate in the decision-making. The Dutch favor a larger voice for developing countries in IMF/World Bank governance - although not at the expense of the Netherlands' seat on the IMF Board of Governors. Rather than replacing existing board members (like the Netherlands), the board should be expanded to include more developing countries. To offset the expansion, the IMF could reduce board members' threshold for voting by qualified majority from 85 percent to 70 or 75 percent.

LOW INCOME COUNTRIES

¶13. Achievement of the Millennium Development Goals (MDGs) to halve world poverty by 2015 is a core principal of the Netherlands' substantial development assistance program (about USD 7.5 billion annually). The Dutch are increasingly concerned that the economic crisis will derail low income countries' (LICs) progress toward their MDGs. They therefore strongly support continued G20 attention to the LICs. They want G20 members to follow through on their pledges at the London summit to support the LICs through financial contributions to the IMF and other IFIs. They also want countries

to follow through on their commitments to allocate 0.7 percent of their GDP to foreign development assistance. (Note: The Netherlands allocates 0.8 percent of GDP, including 0.7 percent for all forms of assistance and an extra 0.1 percent specifically for sustainable energy projects. End note.) The Dutch stress the need to remain vigilant about the IFIs' capital base, ensuring in particular that the multilateral development banks have sustainable income models that can ensure financing is available in times of need. The Dutch have also expressed interest in helping the IMF raise up to USD 8 billion in additional concessional financing to LICs.

¶14. The Dutch will encourage the G20 to remain focused on several specific activities to assist LICs. These include support for the G8 initiative on food security - an area in which the Dutch are extremely active. (Despite cuts to their development assistance necessitated by a rising budget deficit, they will invest about USD 2 billion over the next three years in sustainable agriculture and rural development in Africa, amounting to about 10 percent of their total assistance budget.) They also favor additional G20 support to cooperative banks with a strong base in LICs as a way to spur entrepreneurship among farmers. They point to the example of the Netherlands' Rabobank (the world's largest cooperative bank, according to the Dutch) and its efforts to invest in local African banks. The Dutch also highlight trade finance as another important means of supporting LICs, noting their recent USD 50 million contribution to the International Finance Corporation's Global Trade Liquidity Program.

ENERGY SECURITY

¶15. The Dutch believe that improving energy efficiency and diversity of supply in LICs is critical to achieving the MDGs. A priority of their development assistance program is therefore promoting renewable energy in LICs. They believe that the World Bank's "Scaling-Up Renewable Energy Program for Low Income Countries" (SREP) could catalyze renewable energy investment in LICs. As one of the founders of the SREP, the Netherlands has given USD 80 million to the SREP fund; they will call on G20 members to pledge additional financial support for the fund in Pittsburgh.

TRADE

¶16. The Dutch argue that, despite strong political signals from the U.S. and others, the Doha negotiations have made little progress since the G20 summit in Washington in November 2008. Asserting that trade is essential to economic recovery, the Dutch will encourage G20 members in Pittsburgh to draw up a road map to conclude the Doha Round in 2010. They will also stress the need for continued vigilance against anti-protectionist trade measures.

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COMMENT

¶17. Comment: The Dutch are fully cognizant that, despite three successive summit invitations, they remain guests in the G20 process. They firmly believe that they can make substantive contributions and will present their recommendations at the summit - but in a quiet, reserved manner. Our Dutch interlocutors have also noted some tension between EU members that are G20 participants and those that are not; the Belgians, for example, have expressed concern about a G20 "super group" within the EU that consults on the issues first before bringing the discussion to the larger EU community. As guests in the G20, the Dutch are trying to walk a fine line between wanting to punch above their weight with the big EU economies in the G20 and foster their usual spirit of inclusiveness and consultation with all EU member states. End comment.

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